

## 1999 Country Reports on Economic Policy and Trade Practices

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### BAHRAIN

#### Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	1/
<i>Income, Production and Employment:</i>				
GDP (current)	6,326	6,162	6,150	
Nominal GDP Growth (pct)	4.1	-2.6	0	
GDP by Sector:				
Agriculture	54	56	57	
Manufacturing	1,177	1,035	1,050	
Financial	1,337	1,412	1,500	
Government	1,082	1,149	1,300	
Per Capita GDP (US\$) 2/	9,806	9,508	9,230	
Labor Force (1,000s)	235	240	248	
Unemployment Rate	15	16	17	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply (M2)	8.2	16.6	6.8	
Exchange Rate (US\$/BD)	2.65	2.65	2.65	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 3/	4,310	3,263	3,450	
Exports to U.S.	126	170	235	
Total Imports CIF	3,857	3,554	3,000	
Imports from U.S.	266	295	370	
Trade Balance	453	-291	450	
Trade Balance with U.S. 4/	-140	-125	-135	
External Public Debt	N/A	N/A	N/A	
Current Account Deficit/GDP (pct)	0	0	0	
Debt Service Payments/GDP (pct)	N/A	N/A	N/A	
Gold and Foreign Exchange Reserves	1,035	1,015	1,020	
Aid from U.S.	0	0	0	
Aid from All Other Sources	50.0	50.0	50.0	

Sources: Bahrain Monetary Agency, U.S. Department of Commerce, and Embassy estimates.

1/ 1999 figures are all estimates based on data available in October 1999.

- 2/ Current prices, based on population projections.
- 3/ Exports include transshipment, which accounts for 14 percent of non-oil exports from Bahrain.
- 4/ Figures reflect merchandise trade.

## *1. General Policy Framework*

Although the Government of Bahrain has controlling interest in many of the island's major industrial establishments, its overall approach to economic policy, especially those policies that affect demand for U.S. exports, can best be described as *laissez faire*. Except for certain basic foodstuffs and petroleum products, the price of goods in Bahrain is determined by market forces, and the importation and distribution of foreign commodities and manufactured products is carried out by the private sector. Owing to its historical position as a regional trading center, Bahrain has a well developed and highly competitive mercantile sector in which products from the entire world are represented. Import duties are assessed at a five percent rate for foodstuffs and non-luxuries, and a ten percent rate on most products. Duties on automobiles, boats, alcohol, and tobacco products are considerably higher. The Bahraini Dinar is freely convertible, and there are no restrictions on the remittance of capital or profits. Bahrain does not tax either individual or corporate earnings. The only exception would be for petroleum revenues under a production-sharing agreement.

Over the past three decades, the government has encouraged economic diversification by investing directly in such basic industries as aluminum smelting, petrochemicals, and ship repair, and by creating a secure regulatory framework that has fostered Bahrain's development as a regional financial and commercial center. Despite diversification efforts, the oil and gas sector remains the cornerstone of the economy. Oil and gas revenues constitute approximately 50 percent of governmental revenues, and oil and related products account for about 80 percent of the island's exports. Bahrain's oil production amounts to about 40,000 barrels a day (b/d), and it markets and receives oil revenues from the 140,000 b/d produced from Saudi Arabia's Abu Sa'fa offshore oil field.

The budgetary accounts for the central government are prepared on a biennial basis. The budget for 1999 and 2000 was approved in December 1998. Budgetary revenues consist primarily of receipts from oil, gas, and refinery products, supplemented by fees and charges for services, customs duties, and investment income. Bahrain has no income taxes and thus does not use its tax system to implement social or investment policies. Although initial budget figures for 1999 projected a \$424 million deficit--which was to be financed through the issuance of three-month and six-month treasury bills to domestic banks--sustained high global oil prices over the past nine months may help reduce the deficit, possibly halving it. The government also is considering financing its deficit through Islamic instruments.

The instruments of monetary policy available to the Bahrain Monetary Agency (BMA) are limited. Treasury bills are used to regulate dinar liquidity positions of the commercial banks. Liquidity to the banks is provided now through secondary operations in treasury bills, including: (a) discounting treasury bills; and (b) sales by banks of bills to the BMA with a simultaneous agreement to repurchase at a later date ("repos"). Starting in 1985, the BMA imposed a reserve requirement on commercial banks equal to five percent of dinar liabilities. Although the BMA

has legal authority to fix interest rates, it has not yet exercised the authority. The BMA has, however, published recommended rates for Bahraini Dinar deposits since 1975. In 1982, the BMA instructed the commercial banks to observe a maximum margin of one percent over their cost of funds, as determined by the recommended deposit rates, for loans to prime customers. In August 1988, special interest rate ceilings for consumer loans were introduced. In May 1989 the maximum prime rate was abolished, and in February 1990, new guidelines permitting the issuance of dinar certificates of deposit (CDs) at freely negotiated rates for any maturity from six months to five years were published.

## *2. Exchange Rate Policies*

Since December 1980, Bahrain has maintained a fixed relationship between the dinar and the dollar at the rate of one dollar equals 0.377 BD. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

## *3. Structural Policies*

As a member of the six-nation Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Bahrain). In addition to according duty-free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards and industrial investment coordination. In recent years, the GCC has focused its attention on negotiating a free trade agreement with the European Union. If these negotiations are successfully concluded, such an agreement could have a long-term adverse impact on the competitiveness of U.S. products within the GCC, including Bahrain.

Bahrain is an active participant in the ongoing U.S.-GCC economic dialogue. In addition, Bahrain signed a Bilateral Investment Treaty (BIT) with the United States in September 1999, the first Gulf state to do so. The inaugural meeting of the Joint Economic Dialogue (JED) between Bahrain and the United States also took place in September 1999. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. Bahrain still officially participates in the primary Arab League economic boycott against Israel, but does not observe secondary and tertiary boycott policies against third-country firms having economic relationships with Israel.

With the exception of a few basic foodstuffs and petroleum product prices, the government does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices basically depend upon the source of supply, shipping costs, and agents' markups. Commissions are capped at five percent and are due to be phased out by 2003. Since the opening of the Saudi Arabia-Bahrain causeway in 1985, and the 1998 revision in the Agency Law that abolished sole agency requirements, local merchants have

been less able to maintain excessive margins and, as a consequence, prices have tended to fall as competition has heated up somewhat. Consumer competition is likely to increase further as the full impact of the 1998 Agency Law revision takes effect.

Bahrain is essentially tax-free. The only corporate income tax in Bahrain potentially would be levied on oil, gas, and petroleum producers, all of which are state-owned at this time. There is no individual income tax, nor does the country have any value-added tax, property tax, production tax or withholding tax. Bahrain has customs duties and a few indirect and excise taxes, which include a tax on gasoline, a 10 percent levy on rents paid by residential tenants, a 12.5 percent tax on office rents, and a 15 percent tax on hotel room rates. Firms with 100 or more employees pay a training levy at the rate of 3 percent of the payroll for expatriates and one percent for Bahrainis.

#### *4. Debt Management Policies*

The government follows a policy of strictly limiting its official indebtedness to foreign financial institutions. To date, it has financed its budget deficit through local banks. In April 1998, Bahrain launched its first bond issue--worth approximately \$107 million--which was well received. The government has no plans for a second issue at this time. Bahrain has no International Monetary Fund or World Bank programs.

#### *5. Aid*

Bahrain receives assistance in the form of project grants from Saudi Arabia, Kuwait, and the United Arab Emirates. On April 1, 1996, Bahrain began receiving 100 percent of the revenue from the 140,000 b/d of oil produced from Saudi Arabia's offshore Abu Sa'fa field. This has proved to be a major source of funding for the government's budget.

#### *6. Significant Barriers to U.S. Exports*

**Standards:** Processed food items imported into Bahrain are subject to strict shelf life and labeling requirements. Pharmaceutical products must be imported directly from a manufacturer that has a research department and must be licensed in at least two other GCC countries, one of which must be Saudi Arabia.

**Investment:** The government actively promotes foreign investment and permits 100 percent foreign ownership of new industrial enterprises and the establishment of representative offices or branches of foreign companies without local sponsors. Other commercial investments are made in partnership with a Bahraini national controlling 51 percent of the equity. Except for citizens of Kuwait, Saudi Arabia, and the United Arab Emirates, foreign nationals must lease rather than purchase land in Bahrain. There is, however, currently legislation under consideration that would allow all foreigners to own property in Bahrain. The government encourages the employment of local nationals by setting local national employment targets in each sector and by

restricting the issuance of expatriate labor permits. Nevertheless, a sizable expatriate labor force continues to work in Bahrain.

**Government Procurement Practices:** The government makes major purchasing decisions through the tendering process. For major projects, the Ministries of Works and Agriculture, and of Power and Water, extend invitations to selected, pre-qualified firms. Smaller contracts are handled by individual ministries and departments and are not subject to pre-qualification.

**Customs Procedures:** The customs clearance process is used to enforce the primary boycott of Israel, insofar as it is enforced. While goods produced by formerly blacklisted firms may be subjected to minor delays, the secondary and tertiary boycotts are no longer used as the basis for denying customs clearance, and the process of removing firms from the blacklist has become routine, upon application by the subject firm. In addition, Bahraini customs protects against the import of pirated goods and enforces the Commercial Agencies Law. Goods manufactured by a firm with a registered agent in Bahrain may be imported by that firm's agents or, if by a third party, upon payment of a commission to the registered agent. This arrangement is being phased out (see above).

## *7. Export Subsidies Policies*

The government provides indirect export subsidies in the form of preferential rates for electricity, water, and natural gas to selected industrial establishments. The government also permits the duty-free importation of raw material inputs for incorporation into products for export and the duty-free importation of equipment and machinery for newly established export industries. The government does not target subsidies to small businesses.

## *8. Protection of U.S. Intellectual Property*

Bahrain is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and is obligated to bring its laws and enforcement efforts into TRIPs compliance by January 1, 2000. In February 1995, Bahrain joined the World Intellectual Property Organization (WIPO), and it signed the Berne Convention for the Protection of Literary and Artistic Works, and the Paris Convention for the Protection of Industrial Property on October 29, 1996.

In April 1999, Bahrain became the first country in the Middle East to be removed from the U.S. Special 301 "Watch List" in recognition of its significant progress in providing adequate and effective enforcement of IP laws and regulations relating to copyrighted and trademarked goods. The government's copyright, patent, and trademark laws are being amended to become fully TRIPs-compliant by January 1, 2000.

## *9. Worker Rights*

*a. The Right of Association:* The partially suspended 1973 constitution recognizes the right of workers to organize, but western-style trade unions do not exist in Bahrain, and the government does not encourage their formation. Article 27 of Bahrain's Constitution states: "Freedom to form associations and trade unions on national bases and for lawful objectives and by peaceful means shall be guaranteed in accordance with the conditions and in the manner prescribed by the law. No person shall be compelled to join or remain in any association or union."

In response to labor unrest in the mid-1950's and in 1965 and 1974, the government passed a series of labor regulations that, among other things, allows the formation of elected workers' committees in larger Bahraini companies. Worker representation in Bahrain today is based on a system of Joint Labor-Management Committees (JLCs) established by ministerial decree. Between 1981 and 1984, 12 JLCs were established in the major state-owned industries. In 1994, four new JLCs were established in the private sector, including one in a major hotel. In September 1998, three more JLCs were created, bringing the total number in Bahrain to nineteen.

*b. The Right to Organize and Bargain Collectively:* Bahrain's Labor Law neither grants nor denies workers the right to organize and bargain collectively. While the JLCs described above are empowered to discuss labor disputes, organize workers' services, and discuss wages, working conditions, and productivity, the workers have no independent, recognized vehicle for representing their interests on these or other labor-related issues.

*c. Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in Bahrain, and the Labor Ministry is charged with enforcing the law. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers occasionally compelled foreign workers from developing countries to perform work not specified in their contracts, as well as Labor Ministry responses. Once a worker has lodged a complaint, the Labor Ministry opens an investigation and takes action.

*d. Minimum Age for Employment of Children:* The minimum age for employment is 14. Juveniles between the ages of 14 and 16 may not be employed in hazardous conditions or at night, and may not work over six hours per day or on a piecework basis. Child labor laws are effectively enforced by Labor Ministry inspectors in the industrial sector; child labor outside that sector is less well monitored, but it is not believed to be significant outside family-operated businesses.

*e. Acceptable Conditions of Work:* Minimum wage scales, set by government decree, exist for employees and generally afford a decent standard of living for workers and their families. The current minimum wage is \$398 (150 BD) a month and may be increased, at least in select sectors such as tourism, to \$451 (BD 170) a month. Wages in the private sector are determined on a contract basis. For foreign workers, employers consider benefits such as annual trips home, housing, and education bonuses part of the salary.

Bahrain's Labor Law mandates acceptable working conditions for all adult workers, including adequate standards regarding hours of work (maximum 48 hours per week) and occupational safety and health. Complaints brought before the Labor Ministry that cannot be settled through arbitration must, by law, be referred to the Fourth High Court (Labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the court and labor law are generally considered to favor the worker.

*f. Rights in Sectors with U.S. Investment:* The company law does not discriminate at all against foreign-owned companies and is in the process of being liberalized further. Workers at all companies with U.S. investment enjoy the same rights and conditions as other workers in Bahrain.



**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad  
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	(1)
Total Manufacturing	-5
Food & Kindred Products	(1)
Chemicals & Allied Products	0
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	(1)
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	-4
Wholesale Trade	(2)
Banking	-74
Finance/Insurance/Real Estate	(1)
Services	(2)
Other Industries	(2)
<b>TOTAL ALL INDUSTRIES</b>	<b>-139</b>

(1) Suppressed to avoid disclosing data of individual companies.

(2) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.